

DISPOSAL OF SURPLUS PROPERTY
JEFFERSON BARRACKS, MO.

INTERIM REPORT
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
MADE BY ITS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS

PURSUANT TO

S. Res. 251

A RESOLUTION AUTHORIZING THE COMMITTEE ON
EXPENDITURES IN THE EXECUTIVE DEPARTMENTS
TO CARRY OUT CERTAIN DUTIES



JULY 2 (legislative day, JUNE 27), 1952.—Ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1952

21639

COMMITTEE ON GOVERNMENT OPERATIONS

JOHN L. McCLELLAN, Arkansas, *Chairman*

CLYDE R. HOEY, North Carolina
HERBERT R. O'CONOR, Maryland
HUBERT H. HUMPHREY, Minnesota
MIKE MONRONEY, Oklahoma
THOMAS R. UNDERWOOD, Kentucky
BLAIR MOODY, Michigan

JOSEPH R. McCARTHY, Wisconsin
KARL E. MUNDT, South Dakota
MARGARET CHASE SMITH, Maine
ANDREW F. SCHOEPPPEL, Kansas
HENRY C. DWORSHAK, Idaho
RICHARD M. NIXON, California

WALTER L. REYNOLDS, *Chief Clerk*

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

CLYDE R. HOEY, North Carolina, *Chairman*

JOHN L. McCLELLAN, Arkansas
HUBERT H. HUMPHREY, Minnesota
THOMAS R. UNDERWOOD, Kentucky

JOSEPH R. McCARTHY, Wisconsin
KARL E. MUNDT, South Dakota
RICHARD M. NIXON, California

FRANCIS D. FLANAGAN, *Chief Counsel*

TABLE OF CONTENTS

Introduction.....	Page
Discussion of Facts.....	1
Possible Legal Violations.....	2
Conclusions and recommendations.....	5
	6

TABLE OF CONTENTS

Introduction	1
Chapter I. The Problem	1
Chapter II. The Method	1
Chapter III. The Results	1
Chapter IV. The Conclusions	1
Chapter V. The Summary	1

DISPOSITION OF SURPLUS PROPERTY, JEFFERSON BARRACKS, MO.

JULY 2 (legislative day, JUNE 27), 1952.—Ordered to be printed

Mr. HOEY, from the Committee on Government Operations, submitted the following

INTERIM REPORT

Made to the Committee on Government Operation by its Permanent
Subcommittee on Investigations

[Pursuant to S. Res. 251, 82d Cong.]

INTRODUCTION

On many occasions in the past this subcommittee has made investigations seeking to ferret out and expose the activities of influence peddlers in Government. In conducting these inquiries and submitting reports to the Senate, it has been the purpose of this subcommittee to curtail the operations of these influence peddlers and, if possible, to eliminate the 5-percenter and other similar types of political fixers who constitute a corrupting influence in the conduct of good government.

This present investigation was initiated after it had been brought to the attention of the Senate and the subcommittee by Senator Kem (Republican, Missouri) that a St. Louis, Mo., business firm had paid a \$25,000 fee to a politician-lawyer who allegedly used his influence to assist that firm in successfully concluding a \$90,000 surplus property transaction with the Federal Government. After preliminary inquiries by the staff, the subcommittee held public hearings in this case and the facts developed as a result of that investigation are set forth in this report.

This subcommittee has found that in order to deal effectively with the vexing problem of influence peddling in Government, it is necessary for the executive branch and the Congress to remain constantly alert to the problem and to seek out ways and means to solve it. A lasting and effective solution of this problem can best be accomplished by means of executive regulation or legislation. In this report, the

2 DISPOSAL OF SURPLUS PROPERTY, JEFFERSON BARRACKS, MO.

subcommittee is seeking to suggest a legislative remedy by recommending criminal statutes which can be used to curb this sordid business of influence peddling.

DISCUSSION OF FACTS

In April 1949, Kenneth C. Baker, president of J. D. Streett & Co., Inc., St. Louis, Mo., began negotiations with the War Assets Administration to acquire certain Government-owned land and buildings at Jefferson Barracks, Mo. Jefferson Barracks was an old Army installation consisting of 877 acres. The J. D. Streett & Co., Inc., was interested in acquiring only that part of the facility consisting of approximately 36 acres upon which were located five buildings and railroad sidings. The company sought to acquire this property for the purpose of operating an antifreeze plant.

From the beginning of these negotiations, Mr. Baker obtained the services of the Joseph M. Darst & Associates, realtors, of St. Louis, Mo., for the purpose of assisting his firm in acting as real-estate brokers in this transaction.

Jefferson Barracks had been declared surplus by the Department of the Army in October 1946 but was withdrawn from surplus at the request of that agency in December 1947. Between that date and April 1949 when Mr. Baker's firm became interested in acquiring the property at Jefferson Barracks, the Army was using only a very small portion of the military reservation and it was indicated that when the Army moved out of that small area, the entire reservation would be declared surplus. At about that same time in 1949, the county of St. Louis was interested in obtaining the entire military reservation area for a national historic monument and park.

The J. D. Streett & Co., Inc., was very anxious to acquire this property in order to begin manufacturing operations, and, after waiting for about 6 weeks following his initial contact with the War Assets Administration, Mr. Baker discussed his problem with Lee B. Schumacher, a St. Louis businessman. According to Baker, Schumacher was well acquainted in Washington and in May 1949 advised Baker that he would check in Washington into the status of the Baker request for the purchase of this property.

About June 10, 1949, Baker had a second conversation with Schumacher after Schumacher's return from Washington. At that time, Schumacher informed Baker that the J. D. Streett & Co., Inc., would not be able to acquire the property it desired at Jefferson Barracks unless that firm retained an attorney with the right political contacts in Washington. Schumacher then recommended James A. Waechter, a St. Louis attorney, who had been active in Democratic politics in that area for many years, as the right man to do the job. At that same meeting, Schumacher told Baker that if Waechter was successful in obtaining the Government property in question that Waechter's fee would be \$25,000.

Mr. Baker then turned over to Schumacher a check in the amount of \$25,000 dated June 10, 1949, payable to Waechter. Baker testified that it was his understanding that Schumacher was to hold the check and turn it over to Waechter at such time as the J. D. Streett & Co., Inc., obtained the property it desired at Jefferson Barracks. As a matter of fact, Baker never met or discussed the case with Waechter until the latter part of September 1949 after the J. L.

Streett & Co., Inc. had actually obtained the property at Jefferson Barracks. From June until September 1949, Schumacher carried on negotiations between Baker and Waechter and acted as the contact man between the client and the attorney.

Mr. Waechter was called as a witness by this subcommittee and testified that sometime in the latter part of May or early June 1949, Schumacher came to his law office and stated he had been referred to Waechter by the late Robert E. Hannegan, former Postmaster General and former chairman of the National Democratic Committee, who was then engaged in private business in the city of St. Louis. According to Waechter, Schumacher said he was authorized to speak for the J. D. Streett & Co., Inc., and he pointed out that that company was very anxious to acquire a factory site which was located at Jefferson Barracks. Waechter further stated that he first learned that his fee in this transaction was to be \$25,000 when he was advised of that fact by Schumacher sometime in July 1949. The fee, according to Waechter, was contingent upon J. D. Streett & Co., Inc., acquiring the property it sought to purchase.

Waechter further testified that the only work he did to earn his fee was to make one telephone call in Washington to some unknown official of the General Services Administration, which was then handling the disposal of Government-owned surplus, and two telephone calls to Robert E. Hannegan. Waechter contended that he made no attempts to influence any Government decisions by his telephone calls to the General Services Administration or to Hannegan and said that he merely learned as a result of these calls that the J. D. Streett & Co., Inc., application for the purchase of this property was being handled through normal channels.

The fact is that Waechter had little or no knowledge of the facts in this case and there is no evidence that he took any part in the actual negotiations which J. D. Streett & Co., Inc., had with the Government. Available records indicate that from April 1949, when J. D. Streett & Co., Inc., first sought to purchase this property from the Government, until August 1949, the property was not in the surplus category, and therefore the Government could not enter into negotiations to sell the property. However, on August 18, 1949, the General Services Administration solicited public bids for this property and on the closing date, August 29, 1949, the only bid received was that of J. D. Streett & Co., Inc. This bid in the amount of \$90,000 was made not for the purchase of 36 acres of land but only for the improvements on the land with an offer to lease the underlying land for a period of 10 years. Inasmuch as the Government wanted to dispose of both the land and the improvements thereon, this bid of the J. D. Streett & Co. was rejected. General Services Administration officials then worked out a transaction whereby the Kremer-Hicks Co., of St. Louis, would pay \$27,000 to the Government for the 36 acres of land and J. D. Streett & Co., Inc., paid the Government \$90,000 for the buildings and other improvements on the land and arranged to lease the underlying land from Kremer-Hicks Co. for a period of years. This sale was approved by the General Services Administration on September 6, 1949.

Thereafter, on or about September 26, 1949, Baker met Waechter for the first time when he attended a luncheon in St. Louis with Schumacher and Waechter. At that time the \$25,000 check which

4 DISPOSAL OF SURPLUS PROPERTY, JEFFERSON BARRACKS, MO.

Baker had given to Schumacher in June 1949 was turned over to Waechter as his fee for assisting the J. D. Streett & Co. in obtaining this Government-owned property. Waechter testified that he did not split or share this fee with Schumacher or anyone else.

Mr. Schumacher, who acted as the go-between and handled the negotiations between Baker and Waechter, was also called as a witness before this subcommittee. Although Schumacher's testimony would have been very helpful to the subcommittee in its efforts to obtain all the facts in this case, he refused to answer any questions concerning this transaction on the grounds that his answers might tend to incriminate him. At the time of the subcommittee hearings, Schumacher was under indictment for perjury in another Federal case.

During the course of this inquiry, the subcommittee discovered that Raymond W. Karst, an attorney in St. Louis, Mo., who was a Member of Congress from the Twelfth Missouri District in the St. Louis area during 1949 and 1950, had interested himself in the efforts of the J. D. Streett & Co., to obtain this property from the Government. It appears that sometime in the spring of 1949, Schumacher contacted Karst and asked for his assistance in obtaining part of the Jefferson Barracks property from the Government for J. D. Streett & Co., Inc. Mr. Karst testified that at that time he advised Schumacher that he, Karst, as a Member of Congress, was attempting to have all of Jefferson Barracks made into a National Memorial Park and he would not assist in having part of the property turned over to private interests. Subsequently, in June or July of 1949, Mr. Hannegan contacted Congressman Karst and asked him if he would assist in getting part of the Jefferson Barracks property turned over to J. D. Streett & Co., Inc., for a factory site. At that time, Hannegan pointed out that the part of the Jefferson Barracks property which was desired as a factory site was on the river bank in an area which was neither necessary nor desirable for National Park purposes even if the rest of Jefferson Barracks was turned into a park. Karst testified that after he checked into this situation, he then made routine inquiries of the General Services Administration inquiring into the status of the application of J. D. Streett & Co., Inc., for the purchase of this factory site from the Government.

The subcommittee's investigation further developed that between September 16 and December 28, 1949, Mr. Karst borrowed \$4,050 from Waechter who was the attorney who had been paid the \$25,000 fee in this case. Both Karst and Waechter testified that this loan, which was not evidenced by a note or other writing, had no direct or indirect connection with Waechter's representation of J. D. Street & Co., Inc., or Karst's intervention as a Congressman on behalf of J. D. Street & Co., Inc.

Waechter testified, and his testimony was corroborated by Karst, that in September 1949 Karst had asked Waechter to give Schumacher some money to pay bills which Karst had incurred as the result of a building venture in St. Louis. At that time, Karst needed approximately \$1,750 and that amount was turned over to Schumacher by Waechter for the purpose of paying Karst's debts. Subsequently on September 26, 1949, Karst needed more money in connection with his building venture and arranged through Schumacher to obtain a \$3,500 loan at the St. Louis County National Bank. This bank note

was endorsed by Schumacher. Karst testified that he thought that Schumacher had made the payments on the bank loan. It was not until sometime in January 1949 that Karst learned that Schumacher had paid off this bank loan for Karst by borrowing an additional \$2,300 from Waechter. Karst further testified that he subsequently repaid the entire \$4,050 which he had borrowed from Waechter, which included the original direct loan of \$1,750 from Waechter and the additional \$2,300 which Schumacher had obtained from Waechter to pay Karst's bank loan.

Schumacher was also questioned by this subcommittee, concerning his part in these Karst-Waechter loans, but here again he refused to answer any questions on the grounds that his answers might tend to incriminate him.

POSSIBLE LEGAL VIOLATIONS

Mr. Baker, president of the J. D. Streett & Co., Inc., completed a standard Government bid form dated August 26, 1949, which was incorporated in and became part of the contract of sale dated August 31, 1949, under which J. D. Streett & Co., Inc., acquired the buildings and other Government-owned improvements at Jefferson Barracks. The standard Government bid form which was in use at that time included the usual covenant against contingent fees.¹

Notwithstanding the fact that Baker had already agreed to and subsequently did pay Waechter the \$25,000 contingent fee, as has been discussed in the previous section of this report, he signed the contract which contained the warranty that the bidder did not pay a contingent fee to any person to secure the contract. On March 8, 1952, after this subcommittee had initiated its investigation, the General Services Administration referred this case involving the breach of warranty by J. D. Streett & Co., Inc., to the Department of Justice for investigation and action. At the present time that case is still pending in the Justice Department.

In those cases where the warranty is found to have been breached, the only penalty is a civil one, whereby the Government has the right to either annul the contract, or at its option to recover from the successful bidder the amount of the commission paid in violation of the warranty. Under the old form of bid and contract which was used through the summer of 1949, there was no criminal penalty attached to a violation of the warranty provisions in Government contracts and more important, there was no penalty of any kind against the person who received the fee for securing a Government contract by influence or otherwise. Under these circumstances there does not appear to be any action, either criminal or civil, which the Government could take against Waechter who received the \$25,000 fee in this case.

Following the 5-percenter investigation, this subcommittee in 1949 recommended that Government contractors be required to make full disclosures to the Government showing who represented them during

¹ Covenant Against Contingent Fees: The successful bidder warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage or contingent fee. Breach of this warranty shall give the Government the right to annul the contract or at its option to recover from the successful bidder the amount of such commission herewith set forth. This warranty shall not apply to commissions payable by the successful bidder upon the contract secured or made through bona fide established commercial agencies maintained by the successful bidder for the purpose of doing business. "Bona fide established commercial agencies" has been construed to include licensed real-estate brokers engaged in the business generally.

contract negotiations and what fees, if any, had been paid to secure the contract.

Following this subcommittee's recommendation, standard Government contract forms were amended in the fall of 1949 to provide that contractors must make a definite statement as to whether anyone, other than a full-time employee, was employed to assist in obtaining the contract. False statements in a contract with regard to the hiring of a person to assist in securing the contract would constitute a criminal violation on the part of the contractor. However, here again no provisions were made to penalize the influence peddler or other person who was employed and who received a fee to assist in obtaining a contract through influence. It should be noted that this new contract provision which is now used in all standard government contract forms had not yet been promulgated at the time of the Baker-Waechter transaction.

CONCLUSIONS AND RECOMMENDATIONS

This case points up a basic weakness in the laws and regulations which were designed to eliminate and punish those who would engage in improper influence peddling or those who would seek the services of such influence peddlers. The evidence is clear that J. D. Streett & Co., Inc., through its president, Kenneth C. Baker, paid \$25,000 to James A. Waechter, a politician-lawyer, for the influence he could ostensibly exert in connection with a \$90,000 surplus transaction. It is evident that Lee B. Schumacher, a St. Louis businessman, convinced Baker that he, Baker, could not expect to acquire the Government-owned property which his company sought to purchase without the influence and assistance of Waechter. Mr. Waechter admittedly performed no legal services for the substantial fee which he received. Furthermore, there is no evidence that Waechter's two telephone calls to former political leader Robert E. Hannegan, or his routine inquiry of an unknown official at the General Services Administration, had any effect upon the Government decision to sell the property in question to J. D. Streett & Co., Inc. As a matter of fact, investigation revealed that J. D. Streett & Co., Inc.'s application for the purchase of this Government surplus property was handled by the Government agencies involved in a normal manner through routine channels. It appears this is simply and purely a case of a business firm paying out an inordinately large fee for the influence of an allegedly well-connected politician who did nothing to earn his fee. There does not appear to be any connection between the \$4,050 loan which Waechter made to Raymond W. Karst, who was then a Member of Congress, and Karst's routine inquiries concerning the pending status of the sale of this Government property to J. D. Streett & Co., Inc.

As this subcommittee has said on previous occasions in the past, the businessman who resorts to the use of influence peddlers in dealing with the Government will more likely than not find he is paying exorbitant fees for influence which does not exist. This subcommittee has found that the 5-percenter and the political fixer will usually make exaggerated claims as to their influence and in many instances, as in this case, they will accept fees for which they perform no service, legitimate or otherwise.

The subcommittee again warns legitimate businessmen, in their dealings with the Government, to steer clear of influence peddlers. The businessman who resorts to this practice is endangering his own good reputation as well as wasting his money.

The Department of Justice is now investigating this case in view of the fact that J. D. Streett & Co., Inc., failed to disclose that it paid a \$25,000 contingent fee to Waechter and thus breached a warranty in its contract of purchase with the Government. Under existing statutes and regulations, in such cases involving breach of warranty, the Government has the right either to annul the contract or at its option to recover from the successful bidder the amount of the commission, which in this case would be \$25,000. Since the time that the contract in this case was entered into in the summer of 1949, the Government contract forms have been revised to require the contractor to state affirmatively whether or not anyone other than a full-time employee has been retained to solicit or secure the contract. Under the present contract form, if a contractor fails to disclose the fact that he has employed such a person, he is subject to criminal prosecution for making false statements to the Government. However, under the current statutes the man who purports to sell influence is not subject to criminal prosecution nor is he liable for civil penalties.

Under these circumstances the subcommittee is convinced that present Federal statutes are inadequate to deal with those persons who hold themselves out as influence peddlers or those who solicit or pay for such improper influence.

In order to remedy this situation, so that proper criminal and civil action may be taken against all those who participate in influence peddling activities, the chairman of the subcommittee has introduced a bill to amend the Federal criminal code. The other six members of the subcommittee have joined with the chairman in cosponsoring this bill. The subcommittee is of the opinion that the passage of this or some similar legislation will act as a deterrent to the hiring and use of influence peddlers in Government transactions. Furthermore, this legislation will give the Federal Government adequate authority to institute criminal and civil action against all those who engage in any phases of the influence peddling racket.

